Bush China Foundation Brief: Outlook for U.S.-China Cooperation

By Zoe Leung l February 2021

The U.S.-China relationship deteriorated rapidly in 2020, following a gradual erosion of mutual trust on all fronts. Recently, Washington and Beijing clashed over human rights in Hong Kong and Xinjiang and remained caught in confrontations over trade and the coronavirus pandemic while ratcheting up competition in high-tech infrastructure and standards. Although the public health and economic crises stemming from COVID-19 presented the greatest challenges for both leaderships, the mutual mistrust and heated rhetoric largely obstructed any potential for closer coordination. In spite of innumerable areas of common concern and interest, the adversarial element of the relationship has dominated bilateral interactions and will likely remain so, while real opportunities for charting a more constructive U.S.-China relationship were rejected.

To fill this gap, the George H. W. Bush Foundation for U.S.-China Relations (Bush China Foundation) convened a series of focus groups with experts and practitioners from the United States and China to discuss the prospects and challenges for U.S.-China cooperation in the coming years. This project, occurring at a time when the relationship was locked in a precarious downward spiral, examined important policy areas for potential collaboration. The focus groups met virtually between September and December 2020 on three specific topics—global public health, energy trading and business innovation—that were identified by internal and external stakeholders as areas most conducive to U.S.-China cooperation. The discussions identified opportunities for confidence-building measures and generated ideas for impactful programming.

GLOBAL PUBLIC HEALTH

The COVID-19 pandemic has demonstrated that public health cooperation is essential not only to the U.S.-China relationship, but to the entire world. In addition to fighting the current pandemic and preparing better for future public health crises, the United States and China have ample room to collaborate on aging care, clinical trials and a range of other healthcare issues through established ties with intergovernmental organizations and subnational partnerships.

Major opportunities for health cooperation

Pandemics/epidemics: Addressing the ongoing COVID-19 pandemic is the foremost issue demanding cooperation between the United States and China. Although politics are a significant barrier to collaboration, there are still several pandemic-related areas in which both countries could partner. U.S. and Chinese logistical and technological assets could serve to improve access to vaccines and innovative therapeutics—including testing kits, personal protective equipment and oxygen—as well as to enhance pandemic surveillance. These efforts could be steps towards reestablishing close collaboration between the American and Chinese Centers for Disease Control and Prevention. The United States' re-entering the World Health Organization and joining COVAX (COVID-19 Vaccines Global Access) also could open doors for the two countries to work together multilaterally in combating pandemics.

Long-term aging care and services: Both the United States and China have aging populations and will need to expand their capacity for elder care in the coming decade. Both countries could share their existing models (community vs. institution-based), where applicable, coordinate to develop new systems for long-term/aging care using artificial intelligence and conduct joint research to address specific common challenges. The U.S. and China also could explore trilateral or multilateral cooperation with Japan, Germany and South Korea, which all have successful aging care systems that could serve as models.

Clinical trials and data sharing: The U.S. and Chinese pharmaceutical sectors are well-positioned to collaborate with one another on clinical trials, but there is currently regulatory disharmony between the two, differences in ethics review for clinical research and a lack of public investment. As China continues to build R&D capacity in both public and private sectors, there is significant opportunity to incorporate China early into multi-regional clinical trials. The COVID-19 vaccine is evidence of the unprecedented pace of invention owing to collaborative and competitive clinical trials, but there is still ample room to improve safety and efficacy standards. There are promising cooperative areas on technological advancements, pharmaceutical safety, enhancing care quality and preservation of intellectual property.

Security in data-sharing is a major obstacle to bilateral research collaboration. By formalizing regulations and rules for data security, U.S. pharmaceutical companies will be better positioned to take advantage of international joint ventures with Chinese firms and collaborations with Chinese researchers. The free flow of information is necessary for enabling more biological, medical and public health research that would benefit both populaces.

Other opportunities for health cooperation

Other key opportunities for cooperation in global public health include the following:

- Investing in public health infrastructure in underdeveloped regions.
- Reducing costs, expanding equity and strengthening health infrastructure in the United States and China.
- Improving access to healthcare through primary care, drone delivery and telehealth systems.
- Developing treatment and intervention programs for noncommunicable diseases.
- Collaborating on technological and pharmaceutical safety, quality and intellectual property.
- Sharing best practices on mental health treatment, particularly from the U.S. to China.

Frameworks for health cooperation

Bilateral health cooperation: There is a variety models the U.S. and China could utilize to structure collaborative efforts: 1) each country could learn from one another; 2) they could work together to resolve common challenges; 3) they could work together in ways that have spillover benefits to the rest of the world; 4) and/or they could develop synergies that produce an output greater than the sum of its parts. Specifically, the two countries could teach or advise one another in their specialties, partner to help a third country or jointly develop new technologies.

Academic health cooperation: Equally important are institution-to-institution and scholar-to-scholar cooperation. Relative to policymakers and other key stakeholders, academics are generally more welcoming of closer U.S.-China cooperation on public health issues and could serve as a stabilizing force in fostering people-to-people exchanges and collaborations. American and Chinese think tanks and universities could establish a network of research institutions to facilitate collaborative research projects and training courses. Additionally, the two countries could spearhead issue-specific working groups to bring together scholars from American, Chinese and other countries' institutions.

U.S.-CHINA ENERGY FREE TRADE AND INVESTMENT AGREEMENT

The Bush China Foundation has proposed the creation of a U.S.-China Energy Free Trade and Investment Agreement (U.S.-China EFTIA) to catalyze the robust and predictable flow of various forms of energy from the United States to China and create jobs in the United States, while meeting China's growing energy demands. This flagship policy proposal would provide a formal framework of market-based incentives to stimulate interdependent growth and serve as a stepping-stone for other industry-specific strategic economic agreements.

Barriers to U.S.-China energy cooperation

Lack of structure: Energy collaboration on a national scale requires multi-billion-dollar capital investments and long-term sale purchase agreements that unfold over years or decades. The lack of a formal sector-specific framework for such agreements to take place, coupled with the longstanding U.S. concern over intellectual property and China's risk-adverse energy sourcing regime make it difficult for firms to negotiate energy deals at significant scale.

Political risks: Energy security is a critical national interest for both the United States and China, making energy trading a sensitive matter, particularly given the current political discord. Since 2018, U.S.-China trade tensions and trust deficit have added geopolitical instability that has deterred Chinese investors from entering into long-term contracts, hindering investment in projects that would further U.S. development in energy.

Firms in both countries have shown a tendency to eschew long-term cooperation during periods of uncertainty around energy policy, and high barriers to trade have proven to significantly injure both U.S. and Chinese energy firms. For instance, during the recent trade war, American tariffs on prefabricated liquefaction modules from China raised the cost of liquefied natural gas (LNG) production in the United States, making U.S. LNG less competitive globally.

The energy sector is increasingly seen from a national security lens in the United States. For instance, the recent China-Iran 25-year strategic pact will potentially subject more Chinese companies with ties with Iran to U.S. sanctions. The intensifying economic-security nexus causes confusion and dissuades businesses from entering into long-term agreements.

Value proposition of EFTIA

Provide structure: An institutionalized, sector-specific framework that protects business interests and intellectual property for long-term trade and investment can bring predictability and facilitate scaling and cost optimization in the U.S. energy sector.

A U.S.-China EFTIA would create the conditions for a robust and predictable flow of oil, natural gas and renewables from the United States to China. Such an arrangement would generate investment in energy infrastructure in the U.S., create American jobs and reduce the U.S. trade deficit with China. At the same time, it would enable China to meet its energy needs and clean energy goals as well as help diversify Chinese energy imports.

Lower political risks: By untangling energy from the ongoing U.S.-China trade dispute, as proposed by EFTIA, energy firms and financial backers would be more willing to support large-scale capital investment with reduced fear of interdiction by either government.

Establishing EFTIA

Subnational engagements: As the energy market is highly competitive and is currently a buyers' market, China has some leverage. As the United States stands to gain more from a U.S.-China EFTIA vis-a-vis China, there should be much economic incentive in the U.S. to separate energy trading from national politics. The foundation of the agreement could be laid at the subnational level in the United States, such as a Texas-China or Louisiana-China framework. This would effectively empower U.S. state and local governments—who are the ultimate beneficiaries of such an agreement—to form energy partnerships.

Long-term energy needs: The two countries could pursue a dual-track framework that could simultaneously address current fossil fuel needs and longer-term goals of carbon neutrality and sustainability.

BUSINESS INNOVATION AT THE SUBNATIONAL LEVEL

Despite tensions at the national level, engagement between regional, state and municipal-level governments in the United States and China remains a viable avenue for building partnerships. However, facilitating such engagement, especially on a nation-wide scale, presents its own set of challenges and opportunities.

Obstacles to investment/engagement

Political tensions and misperceptions: Persistent U.S. misconceptions of Chinese investors and businesses as agents of the Communist Party of China (CPC) has hindered some development plans and frustrated many private Chinese businesses. Moreover, there is a common perception in many American communities that U.S.-China commercial opportunities only benefit the elite and multinational corporations and that trade with China is a threat to local jobs at the expense of American workers. On the other hand, Chinese businesses fear their investments being blocked or unduly impeded by the Committee on Foreign Investment in the United States (CFIUS) and are unsure if their investment will be welcomed by local government officials. In general, Chinese companies and investors are increasingly feeling less welcomed in the United States, undermining their confidence in U.S. investments.

Opportunities for improvement and engagement

Education: Think tanks and NGOs can contribute to addressing and dispelling the conflation of all Chinese businesses with the CPC by communicating with and educating the American public on these issues. Person-to-person exchange remains an important pillar of trust-building between U.S. and Chinese communities.

Local-level focus: Focusing on state- and local-level engagement, such as with economic development organizations (EDOs) and local community leaders, may be a faster and more effective method of generating greater levels of business, trade and investment exchange than attempting to influence federal-level policies. As opposed to their federal counterparts, state- and local-level leaders, such as governors and mayors, are often more attuned to the economic challenges of the communities they serve and thus generally more open to exploring foreign direct investment opportunities to bolster their local economies. In time, such local links may help to shift the tone and tenor of the conversation around U.S.-China economic engagement away from a zero-sum mentality towards a more nuanced and informed approach.

Smaller company focus: Historically, small- and medium-sized enterprises (SME) in both countries have been underrepresented in the business, trade and investment dynamic. Although these SMEs are often eager to explore cooperation with their counterparts in the U.S. or China, they are often held back from fully leveraging opportunities by a general lack of experience and connections in the other country.

Investment "matchmaking": The winning proposal of the Bush China Foundation's 2019 U.S.-China Policy Hackathon—which recommended the creation of an investment catalogue, akin to a "matchmaking" service, to connect businesses in the U.S. heartland with Chinese investors—is feasible and timely. Engagement with U.S. state-, regional- and municipal-level EDOs and officials familiar with local businesses could help easily identify businesses in need of funding and investment (acquisition, capital or transitions), with an eye toward creating a catalogue of investment-ready transactions in the pipeline. EDOs, world trade centers and chambers of commerce could help advertise the matchmaking service. Once a list of interested companies in the U.S. and China is live, investment links would be more quickly and easily established.

CONCLUSION AND ACKNOWLEDGEMENTS

Although U.S.-China relations will likely remain intensely competitive for the foreseeable future, opportunities for collaborative efforts do exist at both the national and subnational levels. As the focus group discussions suggested, balancing competition and cooperation requires moving away from the zero-sum framing and making space for confidence-building measures critical to stabilizing the relationship and preventing conflict.

This brief is an outcome of a months-long initiative spearheaded by the Bush China Foundation programmatic team and draws upon diverse expertise in government, academia and multinational businesses from both the United States and China. Special thanks to the content experts who participated in our focus groups and our research interns, Cameron Waltz and Luke Jacobus, for their assistance in preparing this report.